

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Sandusky Watertown Utilities Authority</b>	County <b>Sanilac</b>
Audit Date <b>2/28/05</b>	Opinion Date <b>3/30/05</b>	Date Accountant Report Submitted to State: <b>8/8/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Stewart, Beauvais &amp; Whipple</b>			
Street Address <b>1979 Holland Avenue</b>	City <b>Port Huron</b>	State <b>MI</b>	ZIP <b>48060</b>
Accountant Signature <i>Stewart, Beauvais &amp; Whipple</i>		Date <b>8-8-05</b>	

**SANDUSKY-WATERTOWN UTILITIES AUTHORITY BOARD**

**ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
FEBRUARY 28, 2005 AND FEBRUARY 29, 2004**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



# SANDUSKY-WATERTOWN UTILITIES AUTHORITY BOARD

## TABLE OF CONTENTS

	<u>Page Number</u>
<b>Independent Auditor's Report</b>	1
<b>Management's Discussion and Analysis</b>	3
<b>Basic Financial Statements:</b>	
Statement of Net Assets	6
Statement of Revenues, Expenses and Changes in Net Assets	7
Statement of Cash Flows	8
Notes to Financial Statements	9
<b>Supplementary Financial Information</b>	
Summary of Watertown Township Portion of Operations	14
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15

## INDEPENDENT AUDITOR'S REPORT

To The Sandusky-Watertown  
Utilities Authority Board

We have audited the accompanying component unit financial statements of the Sandusky-Watertown Utilities Authority as of and for the fiscal years ended February 28, 2005 and February 29, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Sandusky-Watertown Utilities Authority as of February 28, 2005 and February 29, 2004, and the results of its operations and its cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

On June 6, 2005, the City Council of the City of Sandusky voted to dissolve the Authority. The sewer operations will be continued by the City of Sandusky.

In accordance with *Government Auditing Standards*, we have also issued a report, dated March 30, 2005, on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 5 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements for the Sandusky-Watertown Utilities Authority. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Stewart, Beauvois & Whipple".

Certified Public Accountants

March 30, 2005

# **SANDUSKY WATERTOWN UTILITIES AUTHORITY**

## **Management's Discussion and Analysis**

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Our discussion and analysis of the Sandusky Watertown Utilities Authority's financial statements provides an overview of the Authority's financial activities for the fiscal year ended February 28, 2005 and February 29, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets provide information about the activities of the Authority and present a long-term view of the Authority's finances. Also, the financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and supplementary financial information.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Authority's overall financial status. These statements report information about the Authority, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets regardless of when cash is received or paid. The two government-wide statements report the Authority's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities, this is one way to measure the Authority's financial health or position.
- The third statement is the Statement of Cash Flows which shows the change in cash and cash equivalents presenting all activity of the Authority on a cash basis.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by supplementary information that further explains and supports the information in the financial statements.

#### ***Government-wide Financial Statements***

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report information about the Authority, as a whole, and about its activities in a way that helps answer the question of whether the Authority, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Authority's net assets and how they have changed. The reader can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Authority, you need to consider additional factors such as changes in the general economy, new DEQ regulations, etc.

#### ***Fund Financial Statements***

The Authority has only one fund, the Operating Fund, in which all of the Authority's activities are accounted. The Operating Fund is a business-type fund, which accounts for activities on a full accrual basis.

## FINANCIAL OVERVIEW

The Authority had net assets of \$2,814,814 at February 28, 2005. This is a decrease of \$82,214 from fiscal 2004. Of the net assets at February 28, 2005, \$2,703,346 was a result of capital assets, with the remaining \$111,468 unrestricted. The table below summarizes the net assets at February 28, 2005 and February 29, 2004:

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Current assets	\$ 221,661	\$ 203,197
Capital assets	<u>2,968,483</u>	<u>2,889,851</u>
Total assets	<u>3,190,144</u>	<u>3,093,048</u>
<b>Liabilities</b>		
Current liabilities	33,572	37,396
Long-term liabilities	<u>341,758</u>	<u>189,541</u>
Total liabilities	<u>375,330</u>	<u>226,937</u>
<b>Net Assets</b>		
Invested in capital assets - Net	2,703,346	2,784,520
Unrestricted	<u>111,468</u>	<u>112,508</u>
Total net assets	<u>\$ 2,814,814</u>	<u>\$ 2,897,028</u>

The decrease in net assets of \$82,214 is mainly a result of the penalty that was assessed by DEQ of \$79,806.

The following table summarizes the changes in net assets for 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Operating Revenue	\$ 633,104	\$ 489,816
Operating Expense, Excluding Depreciation	<u>524,939</u>	<u>498,182</u>
Operating Income (Loss) Before Depreciation	108,165	( 8,366)
Depreciation	<u>( 112,693)</u>	<u>( 117,899)</u>
Operating Income (Loss)	( 4,528)	( 126,265)
Non Operating Revenue (Expenses)	<u>( 77,686)</u>	<u>( 754)</u>
Net Income (Loss)	<u>\$( 82,214)</u>	<u>\$( 125,511)</u>

The operating revenues increase significantly for 2005 as a result of the rate increases to users.

## **CAPITAL ASSETS**

The Authority has \$2,968,483 invested in capital assets (net of accumulated depreciation) as of February 28, 2005. The investment in capital assets includes the utility system and treatment plant, and various equipment. During fiscal 2005, the Authority incurred \$190,398 of preliminary engineering expenses for the renovation and expansion of the new treatment plant.

The following table summarizes the capital assets at February 28, 2005 and February 29, 2004.

	<u>2005</u>	<u>2004</u>
Utility System	\$ 4,679,143	\$ 4,679,143
Equipment	270,828	269,901
Construction in Progress	<u>224,554</u>	<u>34,156</u>
	5,174,525	4,983,200
 Accumulated Depreciation	 ( <u>2,206,042</u> )	 ( <u>2,093,349</u> )
	<u>\$ 2,968,483</u>	<u>\$ 2,889,851</u>

## **LONG-TERM DEBT**

The only long-term debt the Authority has, is for advances from the City which were \$265,137 and \$105,331 at February 28, 2005 and February 29, 2004, respectively, and accrued vacation leave which amounted to \$76,621 and \$73,110 at February 28, 2005 and February 29, 2004, respectively.

## **ECONOMIC FACTORS AND NEXT YEARS OPERATIONS**

As of June 6, 2005, the City of Sandusky voted to eliminate the Authority and operate it as a fund of the City, and will serve the same customer base. The City is currently in the process of soliciting bids for the renovation of the treatment facility expected to cost approximately \$6,170,000 of which the City has received grants of \$2,122,000, and low interest loans of \$3,690,000. During fiscal 2005, the City and Township significantly increased rates to cover the renovations and expect further rate increases will be necessary.

## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens and other interested parties a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact 810-648-3330.



## **BASIC FINANCIAL STATEMENTS**

**SANDUSKY-WATERTOWN UTILITIES AUTHORITY**

**STATEMENT OF NET ASSETS  
FEBRUARY 28, 2005 AND 2004**

<b>ASSETS:</b>	<u>2005</u>	<u>2004</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 46,634	\$ 57,798
Accounts receivable - sewer billings	160,318	163,923
Due from Township	-	1,568
Due from City	<u>14,709</u>	<u>10,825</u>
	<u>221,661</u>	<u>203,197</u>
 <b>Capital Assets:</b>		
Utility System	4,679,143	4,679,143
Equipment	270,828	269,901
Construction in progress	<u>224,554</u>	<u>34,156</u>
	5,174,525	4,983,200
Less - accumulated depreciation	<u>( 2,206,042)</u>	<u>( 2,093,349)</u>
	<u>2,968,483</u>	<u>2,889,851</u>
 Total Assets	 <u>\$ 3,190,144</u>	 <u>\$ 3,123,965</u>
 <b>LIABILITIES:</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 10,694	\$ 13,833
Accrued salaries	4,618	3,213
Due to Township	7,160	-
Bonds payable, current portion	<u>11,100</u>	<u>20,350</u>
	<u>33,572</u>	<u>37,396</u>
 <b>Long-Term Liabilities:</b>		
Bonds payable (net of current portion)	-	11,100
Advance from City	265,137	105,331
Accrued vacation leave	<u>76,621</u>	<u>73,110</u>
	<u>341,758</u>	<u>189,541</u>
 Total Liabilities	 <u>375,330</u>	 <u>226,937</u>
 <b>NET ASSETS:</b>		
Investment in capital assets, net of related debt	2,703,346	2,784,520
Unrestricted	<u>111,468</u>	<u>112,508</u>
 Total Net Assets	 <u><u>\$ 2,814,814</u></u>	 <u><u>\$ 2,897,028</u></u>

See Notes to  
Financial Statements

**SANDUSKY-WATERTOWN UTILITIES AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE FISCAL YEARS ENDED FEBRUARY 28, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>Operating Revenues:</b>		
Sales of services	\$ 618,355	\$ 472,392
Tap-in fees	-	3,520
Penalty	14,749	13,904
	<u>633,104</u>	<u>489,816</u>
<b>Operating Expenses:</b>		
Salaries	191,357	181,064
Fringes	103,544	94,188
Operating supplies	38,422	44,546
Testing	14,064	-
Professional fees	20,997	38,552
Insurance	10,371	12,448
Utilities	69,103	54,495
Repair and maintenance	41,211	32,802
Equipment/Garage rental	3,690	1,939
Gas and oil	936	796
Sludge removal	26,056	31,816
Other	5,188	5,536
	<u>524,939</u>	<u>498,182</u>
Operating Income (Loss) Before Depreciation	108,165	( 8,366)
Depreciation	<u>112,693</u>	<u>117,899</u>
Operating Income (Loss)	<u>( 4,528)</u>	<u>( 126,265)</u>
<b>Non-Operating Revenue (Expenses):</b>		
DEQ penalty	( 79,806)	-
Transfer from (to) Township	2,117	829
Interest	746	876
Bond interest and fiscal charges	( 743)	( 951)
	<u>( 77,686)</u>	<u>754</u>
Net Income (Loss)	( 82,214)	( 125,511)
Net Assets at beginning of fiscal year	<u>2,897,028</u>	<u>3,022,539</u>
Net Assets at the end of fiscal year	<u><u>\$ 2,814,814</u></u>	<u><u>\$ 2,897,028</u></u>

See Notes to  
Financial Statements

**SANDUSKY-WATERTOWN UTILITIES AUTHORITY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEARS ENDED FEBRUARY 28, 2005 AND FEBRUARY 29, 2004**

	<u>2005</u>	<u>2004</u>
<b>Cash Flow From Operating Activities:</b>		
Operating income (loss) for the fiscal year	\$( 4,528)	\$( 126,265)
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation	112,693	117,899
Changes in assets and liabilities-		
(Increase) decrease in -		
Receivables	3,605	( 5,744)
Due from City	( 3,884)	( 4,750)
Due from Township	1,568	( 1,568)
Increase (decrease) in -		
Accounts payable	( 3,139)	6,829
Accrued salaries and vacation	4,916	( 21,830)
Due to Township	<u>7,160</u>	<u>( 1,550)</u>
Net Cash Provided by Operating Activities	<u>118,391</u>	<u>( 36,979)</u>
<b>Cash Flow From Non-Capital Financing Activities:</b>		
DEQ Penalty	( 79,806)	-
Transfer from (to) other governmental units	<u>2,117</u>	<u>829</u>
Net Cash Provided (Used) by non-Capital Financing Activities	<u>( 77,689)</u>	<u>829</u>
<b>Cash Flow From Capital and Related Financing Activities:</b>		
Bond payments - principal	( 20,350)	( 16,650)
- interest and fiscal charges	( 743)	( 951)
Advance from the City of Sandusky	159,806	-
Acquisition of capital assets	<u>( 191,325)</u>	<u>( 23,186)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>( 52,612)</u>	<u>( 40,787)</u>
<b>Cash Flow From Investing Activities:</b>		
Interest earned	<u>746</u>	<u>876</u>
Net Cash Provided by Investing Activities	<u>746</u>	<u>876</u>
Net increase (decrease) in cash and cash equivalents for the fiscal year	( 11,164)	( 76,061)
Cash and cash equivalents at beginning of fiscal year	<u>57,798</u>	<u>133,859</u>
Cash and cash equivalents at end of fiscal year	<u><u>\$ 46,634</u></u>	<u><u>\$ 57,798</u></u>

See Notes to  
Financial Statements

# **SANDUSKY-WATERTOWN UTILITIES AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2005 AND FEBRUARY 29, 2004**

The accounting methods and procedures adopted by the Sandusky-Watertown Utilities Authority conforms to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to Financial Statements are an integral part of the Authority's financial statements:

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

#### **A. Reporting Entity –**

The Sandusky-Watertown Utilities Authority was created by the City of Sandusky and Watertown Township, both located in the County of Sanilac, Michigan. The Authority is operated under a joint five (5) member Board consisting of four representatives from the City and one from the Township, the purpose of which is to acquire, own, improve, enlarge, extend and operate a sewage disposal system in accordance with the authorizations of Act 233, Public Acts of Michigan, 1955, as amended. The sewage treatment plant is maintained and operated by the City of Sandusky for the Authority.

#### **B. Entity-wide and Fund Financial Statements –**

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Authority. The Sandusky-Watertown Utilities Authority is accounted for in one business-type fund.

#### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation –**

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the limits of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activity, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **D. Assets, Liabilities and Net Assets –**

##### **Cash and Cash Equivalent –**

The Authority's cash and cash equivalent are savings accounts, demand deposits, and short-term investments with original maturities of three months or less for the date of acquisition.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):**

### **Advance from City –**

The advances from the City represent loans and payments from the City of Sandusky. A payback schedule has not been determined.

### **Receivable –**

The accounts receivable are billed and unbilled sewer services. An allowance for a delinquent account is not necessary since delinquent accounts are added to the tax roll and become liens against the property.

### **Capital Assets –**

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Depreciation is computed using the straight-line method, based on the estimated useful service lives of the respective assets. The estimated useful service lives are as follows:

Utility Systems	50 years
Machinery and equipment	3-10 years

### **Estimates –**

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **NOTE 2 - DEPOSITS AND INVESTMENTS:**

### **Deposits –**

The Michigan Compiled Law authorizes the Authority to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

**NOTE 2 - DEPOSITS AND INVESTMENTS – (cont'd):**

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits.

Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Sandusky-Watertown Utilities Authority's deposits consist of checking accounts, savings accounts and money market accounts. At February 28, 2005 and February 29, 2004, the carrying amounts and bank balance of the Utility Authority's cash and cash equivalents are \$46,634 and \$57,798, respectively. The bank balance is 100% insured by FDIC for fiscal 2004, and 2005.

**NOTE 3 - CAPITAL ASSETS:**

	March 1, 2004			February 28, 2005
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Capital assets not being depreciated -				
Construction in Progress	\$ 34,156	\$ 190,398	\$ -	\$ 224,554
Capital assets being depreciated –				
Utility Systems	4,679,143	-	-	4,679,143
Equipment	<u>269,901</u>	<u>927</u>	<u>-</u>	<u>270,828</u>
Total capital assets being depreciated	<u>4,949,044</u>	<u>927</u>	<u>-</u>	<u>4,949,971</u>
Less accumulated depreciation				
Utility Systems	1,932,179	93,583	-	2,025,762
Equipment	<u>161,170</u>	<u>19,110</u>	<u>-</u>	<u>180,280</u>
Total accumulated depreciation	<u>2,093,349</u>	<u>112,693</u>	<u>-</u>	<u>2,206,042</u>
Total capital assets being depreciated, net	<u>2,855,695</u>	<u>( 111,766)</u>	<u>-</u>	<u>2,743,929</u>
Total capital assets, net	<u>\$ 2,889,851</u>	<u>\$ 78,632</u>	<u>\$ -</u>	<u>\$ 2,968,483</u>

**NOTE 4 - BONDS PAYABLE:**

The following is a summary of changes in long-term debt, including the current portion for the year ended February 28, 2005:

	March 1, 2004			February 28, 2005	Due Within
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
1992 Special Assessment Bonds	\$ 16,650	\$ -	\$ 5,550	\$ 11,100	\$ 5,550
1992 Water/Sewer Improvement Bonds	14,800	-	14,800	-	-
Accrued Vacation and Sick	<u>73,110</u>	<u>3,511</u>	<u>-</u>	<u>76,621</u>	<u>-</u>
	<u>\$ 104,560</u>	<u>\$ 3,511</u>	<u>\$ 20,350</u>	<u>\$ 87,721</u>	<u>\$ 5,550</u>

**NOTE 4 - BONDS PAYABLE – (cont'd):**

	<u>2005</u>	<u>2004</u>
On June 1, 1992, the City of Sandusky issued \$185,000 Special Assessment Bonds (limited tax general obligation) for the purpose of paying costs related to the construction and improvement of the water and sewer system in the West Sanilac district. The bonds are being repaid from special assessments and revenues generated from the water and sewer systems. The Authority's portion of the bonds is approximately 37%, which is to be paid from operating revenue. The Authority's portion of the bonds are due in annual installments of \$5,550 through November 1, 2006, with interest of 6.0 percent, payable semi-annually.	\$ 11,100	\$ 16,650
On June 24, 1992, the City of Sandusky issued \$340,000, Series 1992 C bonds for the purpose of paying costs related to the construction and improvement of the water and sewer systems to the West Sanilac district. The bonds are to be repaid from operating revenues of the water and sewer systems. The Authority's portion is approximately 37%. The Authority's portion of the bonds are due in a final annual installment of \$14,800 on May 1, 2004, with interest of 6.40 percent, payable semi-annually.	-	14,800

**Annual Requirements to Amortize Debt:**

The annual requirements to amortized bonded debt outstanding at February 28, 2005, including interest of \$999 is as follows:

	<u>1992 Special Assessment Bonds</u>
2006	6,216
2007	<u>5,883</u>
	12,099
Interest	<u>( 999)</u>
	<u>\$ 11,100</u>

**NOTE 5 - SEWAGE DISPOSAL AGREEMENT:**

On July 31, 1979, the City of Sandusky and Watertown Township entered into an agreement with the Sandusky-Watertown Utilities Authority for the processing and treatment of sewage. The agreement provides, among other things, that the City employees operate the sewage disposal plant and perform the accounting functions, with all operating costs being split based upon the percentage of flow into the Sewage Treatment Plant. At the current time it is estimated that the City of Sandusky users were contributing approximately 94% with Watertown Township users contributing approximately 6%.

Capital costs for improvements on equipment for the current facility are split 79.9% and 20.1% to the City of Sandusky and Watertown Township, respectively. Capital Cost for the renovation and expansion of the treatment plant is split 90% and 10% to the City of Sandusky and Watertown Township, respectively. However, since the City/Authority received a grant and issued bonds to pay for most of these renovations, the Township has not been billed until it is determined how much will be reimbursed from the sum.



**NOTE 6 - CONSTRUCTION COMMITMENTS:**

The Authority/City of Sandusky is in the process of renovating and expanding the Waste Water Treatment Facility. In connection, the Authority has committed to an engineering contract for the design of its facility in the amount of \$366,965 of which the Authority has paid \$192,423 at February 28, 2005.

**NOTE 7 - SUBSEQUENT EVENTS**

The Authority is in the process of renovating and expanding the Waste Water Treatment Facility for an estimated cost of \$6,170,000. In connection the Authority has received approval of grants of \$2,122,000 and low interest loans of \$3,690,000.

The City of Sandusky City Council voted on June 6, 2005, to dissolve the Authority. The City of Sandusky will continue to operate the sewage treatment facility and provide services to the same users as in the past. A new contract between the City of Sandusky and Watertown Township is being negotiated.

## **SUPPLEMENTARY FINANCIAL INFORMATION**

**SANDUSKY-WATERTOWN UTILITIES AUTHORITY**

**SUMMARY OF WATERTOWN TOWNSHIP PORTION OF OPERATIONS  
FEBRUARY 28, 2005**

Total Operating Expenses, excluding depreciation		\$ 524,939
Township Flow Percentage		<u>6.00%</u>
Township Portion of operating expenses		31,496
Capital Outlay		
Equipment Replacement for current facility (\$927 x 20.1%)		186
DEQ Settlement (\$79,806*7.5%) (A)		5,985
		<u>37,668</u>
Fiscal 2005 billings	35,551	
Less - amounts transferred to Township	-	
Plus - amounts transferred from Township	<u>9,277</u>	<u>44,828</u>
Amount Due from (to) the Township		<u><u>\$ ( 7,160)</u></u>

(A) This is an estimated percentage split

Note: The above expenditures does not include the preliminary engineering expenses for the plant expansion since it is anticipated that a majority of it will be reimbursed through bond proceeds and/or grants.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS***

To the Sandusky-Watertown  
Utilities Authority Board

We have audited the financial statements of the Sandusky-Watertown Utilities Authority, as of and for the year ended February 28, 2005, and have issued our report thereon, dated March 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Sandusky-Watertown Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters, which are required to be reported under *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Sandusky-Watertown Utilities Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Sandusky-Watertown Utilities Authority's ability to record, process, summarize, and report financial data consistent with the assertions of the administration in the financial statements. Reportable conditions are described as follows:

**There is a lack of segregation of duties over Utilities Billings and Receivables.**

At the current time, the same individual or individuals input meter readings, mail out billings, collect cash receipts, and credits customer accounts. We understand that in small offices it is very difficult to separate accounting functions; however, if possible, we recommend that these duties be segregated as much as possible.

**The utilities accounts receivable should be periodically reconciled to the detailed subsidiary records.**

During our audit we noted that the detailed utilities accounts receivable ledgers are not reconciled to the General Ledger on a monthly basis. By not performing this reconciliation, transactions or adjustments may be posted to the general ledger, but not the detailed accounts receivable ledger and vice versa. To increase the control over the utility accounts receivable and cash receipts, and increase the accuracy of internally prepared financial statements, the detailed accounts receivable ledger should be reconciled to the general ledger on a periodic basis.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

This report is intended for the information of management, the Authority Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specific parties.



Certified Public Accountants

March 30, 2005